MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Borrowing Restraint Elsewhere Makes Room for Federal Debt Surge

Moody's Analytics Research

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Credit Markets Review and Outlook

By John Lonski, Chief Economist, Moody's Capital Markets Research, Inc.

Borrowing Restraint Elsewhere Makes Room for Federal Debt Surge

Partly as a means of offsetting the loss of business activity to deleveraging by households, businesses, as well as state and local governments, the federal government's share of the U.S.' broadest estimate of public and private nonfinancial-sector debt has soared from year-end 2007's 18% to the 34% of 2017's third quarter. The latter share is the highest since 1960's third quarter.

The available record shows that the U.S. government's share of total nonfinancial-sector debt peaked at the 72% of year-end 1945. The latter was largely the offshoot of the extraordinary funding demands stemming from World War II. Thereafter, federal debt's share trended lower until temporarily bottoming at year-end 1974's 18.7%. Despite how the latter episode overlapped the considerable funding needs arising from the Vietnam War and Great Society programs, federal debt's share of total debt still fell from 1963's 30% to 21% by 1972.

Perhaps the U.S.' ever increasing loss of global competitiveness in manufacturing helps to explain why federal debt's share of total debt began to climb toward the end of 1974-1975's severe recession. Ultimately, federal debt would crest at 29.2% of Q2-1995's total debt outstanding. Thereafter, the ratio of federal debt to total debt trended downward until bottoming at Q4-2007's record low 18.3%. Going forward, the combination of tax cuts and the relentless growth of mandatory federal outlays owing to the unprecedented aging of the U.S. population signal an indefinite climb by the U.S. government's share of total nonfinancial-sector debt.

Aging Population Will Accelerate Federal Debt, but Slow Most Everything Else

If not already, demographic change will be a big deal for financial markets and business activity. Government forecasts indicate that after growing by 352,000 per year, on average, during the 10-years-ended 2007, the number of Americans aged at least 65 years will expand by a far greater 1.78 million annually, on average, for the 10-years-ended 2027. Adding to the difficulty of funding such a massive increase in the number of retirees, demographers estimate that the average annual increase in the number aged 16 to 64 years will shrink from the 2.3 million of the 10-years-ended 2007 to a far smaller 420,000 during the 10-years-ended 2027.

An older population favors slower rates of growth for household expenditures, household debt, and core consumer price inflation. In addition, investor risk-aversion might be expected to rise as the population ages. Any rise in risk aversion implies a stronger preference for fixed-income assets relative to equities. Thus, as the population ages, real interest rates should subside. However, a sustainable jump by the underlying growth of productivity and profits could offset the downward bias imparted to real interest rates by a more mature citizenry.

State & Local Government Debt to Remain under Year-End 2010's Record $3.18 Trillion

Not all government debt has been soaring higher. Since year-end 2007, U.S. government debt's 10.9% average annualized advance has far outpaced the accompanying 0.5% annualized rise by state and local government debt. In turn, state and local government debt fell from year-end 2007's 9% to Q3-2017's 6% of total debt outstanding. Thus, the public sector's share of total nonfinancial borrower debt increased from Q4-2007's 27% to Q3-2017's 40%. The latter was the highest since 1963.

The sluggish growth of state and local government debt reflects a profound deceleration by state and local government spending's average annualized growth rate from the 6.1% of the 10-years-ended 2007 to the 1.8% of the 10-years-ended 2017. In no small way, the funding requirements of public employee pensions and retiree health-care programs have curbed the growth of state and local expenditures.

Credit Markets Review and Outlook

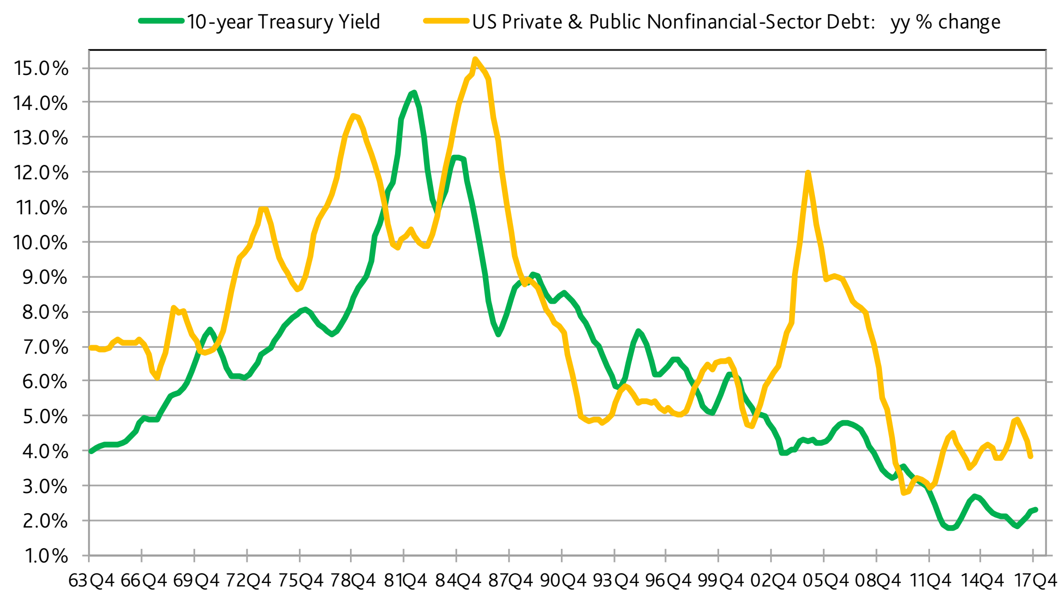
Federal Debt Will Far Outpace Other Broad Categories

A possible $975 billion increase in U.S. government debt for fiscal 2018 would leave Q3-2018's outstanding federal debt up by 5.9% annually. As of Q3-2017, federal debt outstanding grew by $597 billion, or 3.8%, from a year earlier.

Into the indefinite future, federal debt is likely to materially outrun each of the other broad components of U.S. nonfinancial-sector debt. Because of non-federal debt's relatively slow growth, the private and public debt of the U.S.' nonfinancial sectors may grow no faster than 4.3% annually during the year-ended Q3-2018 to a record $50.77 trillion. For the year-ended Q3-2017, this most comprehensive estimate of U.S. nonfinancial-sector debt rose by 3.8% to $48.64 trillion.

Figure 1: Forthcoming Acceleration by US Government Debt May Be Offset By Below-Trend Growth of Non-Federal Debt

sources: Federal Reserve, Moody's Analytics



Though expectations of faster growth for total nonfinancial-sector debt complements forecasts of higher short- and long-term interest rates for 2018, the quickening of total nonfinancial-sector debt growth may not be enough to sustain the 10-year Treasury yield above the 2.85% average that the Blue Chip consensus recently predicted for 2018.

The projected growth of nonfinancial-sector debt looks manageable from a historical perspective. For one thing, 2018's projected percent increase by debt lags far behind the 9.1% average annual advance by U.S. nonfinancial sector debt from the five-years-ended 2007. Back then, unsustainably rapid growth for total nonfinancial-sector debt and 2003-2007's 2.1% annualized rate of core PCE price index inflation supplied a 4.4% average for the 10-year Treasury yield of the five-years-ended 2007. By contrast, the 10-year Treasury yield's moving five-year average sagged to 2.2% during the span-ended September 2017 as the accompanying five-year average annualized growth rates descended to 4.4% for nonfinancial-sector debt and 1.5% for core PCE price index inflation.

Serial Correlation Between 10-year Treasury Yield and Federal Debt Growth May Surprise

As derived from a sample that extends from Q4-1985 to the present, the 10-year Treasury yield's strongest correlation, by far, is the 0.82 with the annual rate of core PCE price index inflation. The 10-year Treasury yield's correlation with the annual growth rate of total public and private nonfinancial sector debt is a meaningful 0.55. Among the major components of total nonfinancial sector debt, the 10-year Treasury yield posted correlations of 0.54 with the growth of private-sector debt and 0.22 with the growth of state and local government debt.

What, at first, seems most surprising is the 0.0 correlation between the 10-year Treasury yield and the annual percent change of U.S. government debt. However, the lack of any serial correlation between the

10-year Treasury yield and the growth of federal debt can be explained by how federal debt tends to grow more rapidly amid a decidedly subpar economy, which is exactly when Treasury bond yields are most likely to drop.

US Nonfinancial-Corporate Debt May Slow in 2018

The combination of higher borrowing costs, higher after-tax profits and the repatriation of cash now held abroad might help to contain Q3-2018's growth of nonfinancial-corporate debt to a 4.3% year-to-year gain. The latter is slower than Q3-2017's 5.5% annual increase to a record $8.84 trillion.

A likely year-over-year contraction by 2018's issuance of bonds by U.S.-domiciled nonfinancial corporations supports expectations of slower corporate debt growth. Thus far in February, U.S.-dollar denominated bond offerings have incurred year-over-year setbacks of 16% for investment-grade and 48% for high-yield. For all of 2017, bond issuance by U.S. corporations grew by 2% for investment-grade and 17% for high-yield.

Growth of Household-Sector Debt May Remain Under 4%

After rising by 3.6% yearly to Q3-2017's record $15.07 trillion, household-sector debt may slow to a 3.5% annual rise for Q3-2018. Higher mortgage yields and the less preferential tax treatment of residential real estate may curb the growth of outstanding home mortgage debt, which rose by 2.9% annually in Q3-2017 to $10.01 trillion, which still fell short of Q2-2008's record $10.705 trillion.

Elsewhere, the growth of consumer credit outstanding may be reined in by both its unsustainably fast advance of late 2017, as well as by a likely second straight annual dip for unit sales of cars and light trucks. As of Q3-2017, consumer credit grew by 5.4% annually to $3.78 trillion of outstandings.

In summary, though U.S. government debt is bound to jump sharply higher in 2018, the continuation of below-trend growth for the other major categories of U.S. nonfinancial-sector debt will help to limit 2018's climb by Treasury bond yields. Unlike the acceleration by U.S. government debt, the annual increase of private-sector debt is expected to ebb from Q3-2017's 4.4% to 3.9% by Q3-2018. In addition, after shrinking by 1.0% annually to Q3-2017's $3.04 trillion, the outstandings of state and local government debt may stabilize in 2018.

The Week Ahead – U.S., Europe, Asia-Pacific

THE U.S.
By Ryan Sweet of Moody's Analytics

Housing market sensitivity to mortgage rates is increasing

U.S. existing-home sales are off to a slow start this year and a number of hurdles lie ahead, including higher mortgage rates, lean inventories, tax legislation, and deteriorating affordability. Existing-home sales fell 3.2% to 5.38 million annualized units in January, their lowest since September. January sales came in weaker than our below-consensus forecast. Though it's early, the risks to our forecast for existing-home sales to end this year north of 6.2 million annualized units are heavily weighted to the downside.

Existing-home sales are counted at the time of closing, so existing-home sales in January reflect mortgage sales in November and December. Therefore, rising mortgage rates should continue to weigh on sales. Based on the historical relationship between the 10-year U.S. Treasury yield and the Freddie Mac 30-year fixed mortgage rate, the latter is heading toward 4.7%, up from 4.4% in mid-February. This won't be the peak for mortgage rates, since an increase in inflation expectations, further tightening by the Federal Reserve, and rise in the term premium will push the 10-year Treasury yield higher. Mortgage rates will follow.

There are other issues. The tax legislation reduces the value of the mortgage interest deduction and property tax deduction. The impact will vary regionally and across the price-points of the market. The low and high ends of the housing market shouldn't be significantly affected. Rather, it is the segment of the market where homes are priced from $750,000 to $1.5 million that the tax legislation could hurt.

Total inventories were down 9.5% on a year-ago basis in January, extending their consecutive streak of declines to 32 months. The combination of low supply and decent demand is pushing prices higher. The median existing-home price was up 5.8% on a year-ago basis in January.

January existing-home sales feed into our high-frequency GDP model's estimate of GDP via residential investment (brokers' commissions). The drop in existing-home sales kept our tracking estimate of first quarter GDP growth at 2.7% at an annualized rate.

Looking ahead, housing could contribute less to growth this year than we anticipated. We find evidence that the U.S. housing market's sensitivity to mortgage rates is increasing. We used a fairly simple vector autoregression model and estimated residential investments sensitivity to mortgage rates over a number of time periods. The results showed that residential investment has become a little more sensitive this expansion. But history has shown it's not constant; the sensitivity can change.

Still, the rise in mortgage rates since the beginning of the year could be problematic. The Fannie Mae 30-year fixed mortgage rate has risen 39 basis points since the beginning of the year and should continue to rise given its historical relationship with the 10-year U.S. Treasury yield. The recent increase in mortgage rates is less than half the gain following the U.S. presidential election in 2016 and smaller than the 1.2-percentage point increase during the so-called taper tantrum in 2013. Still, housing weakened after both the election and the taper tantrum.

This won't be the peak for mortgage rates, since an increase in inflation expectations, further tightening by the Federal Reserve, and the rise in the term premium will push the 10-year Treasury yield higher. Mortgage rates will follow. To assess the impact, we ran through our U.S. macro model a scenario of a permanent increase in mortgage rates of 1 percentage point in the first quarter. That would be roughly the average of the gain during the taper tantrum and following the presidential election.

The results show that the hit to residential investment is noticeable over the course of the subsequent year; real residential investment would be 7% lower than the baseline—enough to shave 0.1 to 0.2 percentage point off GDP growth for the year. That's not enormous, but the assumption that mortgage rates only rise by 1 percentage point could be a little conservative.

All told, it won't be surprising if residential investment falls short of our expectation this year. It's not off to a good start. Real residential investment is on track to rise around 2% at an annualized rate in the first quarter, but odds are rising that it posts a decline instead.

The upcoming week is busy. We get our second look at fourth quarter GDP. Also, durable goods orders, vehicle sales, construction spending, the advance goods deficit, and inventories could all alter our estimate of first quarter GDP growth. We will release our forecasts on Monday.

	Key indicators	Units	Consensus	Last
Mon @ 10:00 a.m.	Moody's Analytics Business Confidence for week ending 2/23/18	index, 4-wk MA		37.7
Mon @ 10:00 a.m.	New-home sales for January	ths, SAAR	650	625
Tue @ 8:30 a.m.	Advance goods trade deficit for January	$ bil	-72.3	-71.6
Tue @ 8:30 a.m.	Durable goods orders for January	% change	-2.5	2.9
	Excluding transportation	% change	0.3	0.6
Tue @ 10:00 a.m.	Conference Board Consumer Confidence for February	index	126.0	125.4
Wed @ 8:30 a.m.	GDP for 2017Q4-second estimate	% change, SAAR	2.5	2.6
Wed @ 10:00 a.m.	Pending-home sales for January	% change	0.5	0.5
Thur @ 8:30 a.m.	Initial claims for week ending 2/24/18	ths		222
Thur @ 8:30 a.m.	Personal income for January	% change	0.2	0.4
	Personal spending for January	% change	0.2	0.4
	Core PCE deflator for January	% change	0.3	0.2
Thur @ 10:00 a.m.	Construction spending for January	% change	0.2	0.7
Thur @ 10:00 a.m.	ISM manufacturing survey for February	diffusion index	58.9	59.1
Thur @ 4:00 p.m.	Vehicle sales for February	mil, SAAR	17.2	17.2
Fri @ 10:00 a.m.	Michigan sentiment for February, final	index	98.3	99.9

EUROPE

By **Barbara Teixeira Araujo** and Europe staff of Moody's Analytics in London and Prague

Expect data to confirm expansions in France, Spain and Italy

The week ahead brings a barrage of top-tier data for the euro zone countries. The second estimate of fourth quarter GDP growth for most of the area's major economies will be in the spotlight. We don't expect any surprises. In France, Spain and Italy, the expansion should be confirmed at 0.6% q/q, 0.7% and 0.4%, respectively, in line with the initial estimates. Markets' focus will nonetheless be on the publication of the expenditure breakdown details for those countries, which haven't been made available yet. Both we and the markets are expecting that manufacturing investment will be the standout detail, soaring in all major countries on the back of a revival of the area's industries last year. But net trade should also have contributed strongly to growth. This is impressive and relatively unexpected, notably given that the 10% y/y appreciation of the currency was supposed to have dented the competitiveness of the area's export products. True, we don't expect this strength to be sustained throughout 2018, but leading indicators made available for the first quarter have remained extremely resilient and point to upside risks to January and February's numbers. Elsewhere, by contrast, household consumption is expected to have remained relatively subdued, only matching its third quarter growth rate or slightly slowing in some countries. But this is nothing to worry about; a further tightening in the area's labour market combined with accelerating wages point to a rebound in the first quarter in France, Germany and Italy.

France's performance at the end of the year has caught our eye. Preliminary estimates showed that the country's recovery accelerated to 0.6% q/q in the year's closing stanza, from 0.5% in the third quarter, pushing the yearly rate of expansion up to an impressive 2.4%, the strongest since 2011. December's indicators have all matched our expectations, so we have no reason to believe that this first estimate wil be revised up or down. Nonetheless, the details will bring cheer, and we expect them to show that accelerating investment supported growth at the end of the year. And while manufacturing capex will steal the show, construction and services investment should also have risen strongly. In line with the story in most other euro zone economies, consumer spending is expected to have slowed to only 0.3%, from 0.6% in the third quarter, but this likely was due mainly to a plunge in energy consumption on the back of the warmer-than-average weather in October and December, while spending on other goods likely remained resilient.

French spending on goods data for January will also be released, and they should show that consumption rebounded strongly at the start of the year following a decline in December. True, the numbers will be depressed by yet another decline in energy consumption, as January's temperatures were again extremely mild—they exceeded by as much as 3 °C their long-run averages all throughout the country—but a rebound in food and durables spending will provide some offset. To put it into context, December's headline was hit by the fact that consumers have brought forward part of their Christmas shopping to November's Black Friday weekend, since this newly-imported trend has yet to be fully incorportared into the seasonally-adjusted numbers. We thus expect a correction in January, notably in sales of clothing and household durables.

Last but not least, preliminary inflation figures for the euro zone should show that the headline remained steady at just 1.3% in February. The core rate also should have remained steady at 1%. However, provided that oil prices remain at their current levels, we expect that inflation pressures will rebound strongly from the second quarter. We will update our forecasts on Monday.

	Key indicators	Units	Moody's Analytics	Last
Wed @ 7:45 a.m.	France: Household Consumption Survey for January	% change	0.6	-1.2
Wed @ 7:45 a.m.	France: GDP for Q4	% change	0.6	0.5
Wed @ 9:00 a.m.	Germany: Unemployment for February	%	5.4	5.4
Wed @ 10:00 a.m.	Euro Zone: Preliminary Consumer Price Index for February	% change	1.3	1.3
Thur @ 9:00 a.m.	Italy: Unemployment for January	%	10.9	10.8
Thur @ 10:00 a.m.	Euro Zone: Unemployment for January	%	8.6	8.7
Fri @ 8:00 a.m.	Germany: Retail Sales for January	% change	0.2	-1.9
Fri @ 8:30 a.m.	Spain: GDP for Q4	% change yr ago	0.7	0.8
Fri @ 9:00 a.m.	Italy: GDP for Q4	% change	0.3	0.4

ASIA-PACIFIC

By Katrina Ell and the Asia-Pacific staff of Moody's Analytics in Sydney

Japan Data Will Show the Year's Good Start

A barrage of Japan's activity data for January should show the economy got off to a good start in 2018. Manufacturing finished 2017 on a high, with three consecutive monthly increases through the fourth quarter. Transport equipment and general purpose machinery remain the main driver. Further gains, albeit at a slower pace, are likely for January. Retail trade should slow a little in January following December's sharp rise. Rising commodity prices have added to retail fuel costs. The spring wage negotiations will be the key input to determining whether consumers will remain their least frugal in decades. Japan's labour market continues to tighten. The unemployment rate likely held at 2.8% in January, while the total number of jobs added will rise after December's drop.

Chinese manufacturer sentiment has dipped recently but remains optimistic on net. Tech manufacturers still report growing orders, although export-related orders suffered in January. Lunar New Year effects may be playing a role, which may cause some distortions for the February reading.

India's GDP growth likely hit 6.8% in the fourth stanza, from the third quarter's 6.2%. This brings full-year GDP growth to 6.2%, markedly weaker than 7.9% in 2016. In the second half of 2017 there was a broad-based pickup in domestic conditions, as demonetisation effects kept fading. We expect consumption will add firmly in the final quarter. Although India's exports have been strong in 2017, higher commodity prices will cause imports to rise more sharply than exports.

Elsewhere, Hong Kong's GDP growth likely rebounded in the fourth quarter after a softening in the third. Asset markets are booming, with the Hang Seng surpassing its 2008 record in the quarter and housing activity still going strong. Exports growth cooled slightly but remained healthy in the fourth quarter, with global demand lifting throughput of electronics and other goods from the mainland.

Eyes will be on monthly foreign trade data from South Korea, Asia's first major economy to release numbers for February. Exports started 2018 on an upbeat note, surging by a four-month high of 22.1% y/y, as external demand for semiconductors remained robust and exports of automobiles rebounded. Exports to the U.S. remained relatively weak in January. Trade frictions with the U.S. have increased recently and present downside risk to South Korea's otherwise upbeat outlook, with President Trump threatening to withdraw the U.S. from the 2012 Korea-U.S. Free Trade Agreement and more recently threatening high steel import tariffs, in addition to recently introduced steep tariffs on washing machines.

	Key indicators	Units	Moody's Analytics	Last
Tues @ 8:00 a.m.	South Korea Consumer sentiment for February	Index	109.7	109.9
Tues @ 8:45 a.m.	New Zealand Foreign trade for January	NZ$ mil	375	640
Tues @ Unknown	South Korea Monetary policy for February	%	1.5	1.5
Wed @ Unknown	China Manufacturing PMI for February	Index	51.1	50.9
Wed @ 10:50 a.m.	Japan Industrial production for January	% change	1.0	2.7
Wed @ 10:50 a.m.	Japan Retail sales for January	% change yr ago	1.1	3.6
Wed @ 6:30 p.m.	Thailand Private consumption for January	% change yr ago	2.7	1.0
Wed @ 6:30 p.m.	Thailand Foreign trade for January	US$ bil	1.3	1.5
Wed @ 7:30 p.m.	Hong Kong GDP for Q4	% change yr ago	0.8	0.5
Wed @ 11:00 p.m.	India GDP for Q4	% change yr ago	6.8	6.2
Thurs @ Unknown	South Korea Foreign trade for February	US$ bil	3.9	3.7
Thurs @ 4:00 p.m.	Japan Consumer confidence for February	Index	43.6	44.7
Fri @ 10:00 a.m.	South Korea Retail sales for January	% change	1.3	-4.0
Fri @ 10:30 a.m.	Japan Unemployment rate for January	%	2.8	2.8

FRIDAY, FEBRUARY 23

New Zealand – Retail Trade – 2017Q4

Time: 8:45 a.m. AEDT (Thursday, 9:45 p.m. GMT)

Forecast: 0.6%

New Zealand's retail trade likely improved in the December quarter, rising 0.6% q/q, after rising just 0.2% in the third quarter. A slowdown was expected in the September quarter, following the surge in June related to an influx of overseas visitors for sporting events. Unsurprisingly, food and beverage services recorded the largest fall in the third stanza with volumes down 3.1%. This is a pullback from the jump experienced in June, which put hospitality spending at multiyear highs. Retail trade is unlikely to maintain the burly pace experienced in 2017, as net migration is expected to slow; this was the critical support to household consumption.

Japan – Consumer Price Index – January

Time: 10:30 a.m. AEDT (Thursday, 11:30 p.m. GMT)

Forecast: 1%

Japan's core inflation likely rose a notch to 1% y/y in January, after holding steady at 0.9% in November and December. Higher fuel costs remain the primary upward driver while domestic demand looks to have improved modestly in the December quarter, with consumers a little less frugal. The key unknown remains whether sustained and stronger income growth will emerge. We have seen green shoots; the annual spring wage negotiations will be important, and the government has already begun campaigning for firms to deliver at least a 3% increase. We don't expect the Bank of Japan to hit its 2% inflation target, although tapering long-term asset purchases remains an option by the end of the year.

MONDAY, FEBRUARY 26

No major economic indicators are scheduled for release.

TUESDAY, FEBRUARY 27

South Korea – Consumer Sentiment Index – February

Time: 8:00 a.m. AEDT (Monday, 9:00 p.m. GMT)

Forecast: 109.7

South Korea's consumer sentiment index likely slipped to 109.7 in February, after falling 1 point to 109.9 in January. Although North Korea tensions have eased, locals remain skeptical about Pyongyang's motives. Meanwhile, consumers have been less optimistic about future living standards and economic conditions recently, after optimism rose noticeably through much of 2017.

New Zealand – Foreign Trade – January

Time: 8:45 a.m. AEDT (Monday, 9:45 p.m. GMT)

Forecast: NZ$375 million

New Zealand's trade balance likely remained in surplus in January for a second consecutive month, following four consecutive deficits. We expect the trade surplus narrowed to NZ$375 million in January after the NZ$640 million notched in December. High global dairy prices, alongside buoyant Chinese demand keeping volumes upbeat as well, kept New Zealand's exports healthy in 2017. Early 2018 has shaped up to be a similar circumstance. New Zealand's other soft commodity exports including meat and edible offal are also doing well amid lofty global demand. The import bill has been affected more than usual by large one-off bulky and expensive purchases such as transport equipment including aircraft, and this helped keep the trade balance in deficit through most of the second half of 2017, as did the usual seasonal movement.

South Korea – Monetary Policy – February

Time: Unknown

Forecast: 1.5%

The Bank of Korea will keep the policy rate at 1.5% in February. Following November's 25-basis point increase, the first rate hike since 2011, the BoK is likely adopting a wait-and-see approach given the still-subdued price pressures. Inflation is expected to remain muted, suggesting the monetary policy rate hike cycle is likely to be mild. However, President Moon Jae-in's stimulus measures such as a minimum wage increase this year and efforts to boost employment pose risks of faster inflation.

WEDNESDAY, FEBRUARY 28

China – Manufacturing PMI – February
Time: Unknown

Forecast: 51.1

Manufacturer sentiment has dipped recently but remains optimistic on net. Tech manufacturers still report rising orders, although export-related orders suffered in January. Lunar New Year effects may be playing a role, which may cause some distortions for the February reading. Nonetheless we expect the official PMI fell 0.2 point to 51.1 in February.

Japan – Industrial Production – January
Time: 10:50 a.m. AEDT (Tuesday, 11:50 p.m. GMT)

Forecast: 1%

Japan's industrial production surprised on the upside in December for the third consecutive month of increases. Industrial production rose a sharp 2.7% m/m in December, up from 0.5% the month prior. We expect production slowed a little to 1% m/m in January. Transport equipment and general purpose machinery remain the main driver. However, improved external demand and the tech cycle continue to buttress Japan's economy. We expect these gains will persist in early 2018 because the global recovery will boost Japanese exporters. Overall, production remains a key component of Japan's recent resurgence.

Japan – Retail Sales – January
Time: 10:50 a.m. AEDT (Tuesday, 11:50 p.m. GMT)

Forecast: 1.1%

Retail sales likely decelerated in January after December's sharp jump. Japan's retail sales surprised on the upside in December thanks to a broad-based pickup across the major categories. Retail sales rose 3.6% y/y in December, up from 2.1% the month prior. We expect retail sales likely slowed to 1.1% y/y in January, as the strong growth in spending is unlikely to continue. Rising commodity prices have also added to retail fuel costs. Elsewhere, we see consistent gains across industries that service the ageing population such as medicine and medical equipment. The uptick in retail sales in the final quarter caused consumption to add firmly to fourth quarter GDP growth. We expect consumption growth to slow in the first quarter of 2018.

Thailand – Private Consumption – January
Time: 6:30 p.m. AEDT (7:30 a.m. GMT)

Forecast: 2.7%

Private consumption likely ticked up 2.7% y/y in January, after a 1% lift in the prior month. Consumption was likely boosted by a robust tourism sector and sustained strength in durables demand. However, elevated household debt and little if any wage gains will likely restrain spending. Indeed, without further government stimulus, consumer spending growth is expected to remain mild in the near term.

Thailand – Foreign Trade – January
Time: 6:30 p.m. AEDT (7:30 a.m. GMT)

Forecast: US$1.3 billion

Thailand’s trade surplus likely narrowed to US$1.3 billion in January, after falling to US$1.5 billion in December. Thailand’s exports continued to increase at a solid pace at the end of 2017 despite easing to a five-month low. Imports have been especially strong of late, as imports of capital goods have firmed thanks to improved export-manufacturing conditions and the government’s Eastern Economic Corridor project, which is boosting infrastructure development.

Thailand – Industrial Production – January

Time: Unknown

Forecast: 2.5%

Industrial production likely grew 2.5% y/y in January, after a 2.3% lift in the prior month. Thailand's manufacturing sector should benefit from favourable external conditions in 2018. Thai exports turned up noticeably last year, and that momentum should be carried through into 2018, thanks to strong demand for electronics and components and improved demand for autos. The manufacturing sector should also get a boost from government-led infrastructure projects, which are expected to ramp up this year.

Hong Kong – GDP – 2017Q4

Time: 7:30 p.m. AEDT (8:30 a.m. GMT)

Forecast: 0.8%

Hong Kong's economy likely rebounded in the fourth quarter of 2017 after a softening in the third. Asset markets are booming, with the Hang Seng surpassing its 2008 record in the quarter and housing activity still going strong. Exports growth cooled slightly but remained healthy in the fourth quarter, with global demand lifting throughput of electronics and other goods from the mainland. GDP likely grew 0.8% in the fourth quarter, after a 0.5% gain in the third.

India – GDP – 2017Q4

Time: 11:00 p.m. AEDT (12:00 p.m. GMT)

Forecast: 6.8%

India's December quarter GDP growth likely accelerated further to 6.8%. This will bring the overall growth rate for 2017 to 6.2%, a sharp deceleration on the back of demonetisation. The economy suffered in the first half as the ill effects of demonetisation in late 2016 filtered through the economy. In the second half there was a broad-based pickup in domestic conditions. We expect consumption will add firmly in the final quarter, but investment has troughed and likely picked up further in the December quarter. Although India's exports have been strong in 2017, higher commodity prices will cause imports to rise more sharply than exports. Construction and manufacturing will likely accelerate further and add most to overall GDP growth in the December quarter. The rural sector likely struggled at the back end of 2017 owing to uneven crop sowing for key agricultural commodities.

THURSDAY, MARCH 1

South Korea – Foreign Trade – February

Time: Unknown

Forecast: US$3.9 billion

South Korea's foreign trade surplus likely edged up to US$3.9 billion in February, after narrowing to US$3.7 billion in the prior month. Exports started 2018 on an upbeat note, surging by a four-month high of 22.1% y/y, as external demand for semiconductors remained robust and exports of automobiles rebounded. Notably, exports to the U.S. remained relatively weak in January. Trade frictions with the U.S. have increased recently, with President Trump threatening to withdraw the U.S. from the 2012 Korea-U.S. Free Trade Agreement. Increasing trade protectionism in the U.S. is a key threat to South Korea, given that the U.S. is the country's second largest trading partner.

Japan – Consumer Confidence – February

Time: 4:00 p.m. AEDT (5:00 a.m. GMT)

Forecast: 43.6

Japan's consumer confidence index likely dropped sharply in February after a sharp rise in volatility. The seasonally adjusted consumer confidence index was unchanged at 44.7 in January, with a broad-based slowdown across the major categories except employment. We expect a 1.1-point drop in February to 43.6 following the stock market rout. Japanese consumers have their wealth tied to Japan's stock market, which fell a sharp 10% midway through February. Inflation expectations likely declined mildly, which is not surprising given that concerns around domestic and global growth were exacerbated during the stock market correction. A rebound in inflation expectations is likely, although core inflation will remain capped at around 1%.

FRIDAY, MARCH 2

South Korea – Industrial Production – January

Time: 10:00 a.m. AEDT (Thursday, 11:00 p.m. GMT)

Forecast: -3.4%

South Korean industrial production likely fell 3.4% y/y in January, after dipping 6% in December, as fewer working days likely reduced production. Industrial production growth has weakened noticeably since September. The weakness has been broad-based, with production of capital, intermediate and consumer goods falling in year-ago terms. However, production of information and communications technology products remains relatively firm, even as a high base from a year earlier inhibits gains.

South Korea – Retail Sales – January

Time: 10:00 a.m. AEDT (Thursday, 11:00 p.m. GMT)

Forecast: 1.3%

South Korean retail sales likely ticked up 1.3% m/m in January, after dipping 4% in December. Consumers benefited from a 16.4% increase in the minimum wage at the start of the year. However, consumer sentiment has softened of late, while household debt remains elevated, which will likely keep a lid on spending.

Japan – Employment Situation – January

Time: 10:30 a.m. AEDT (Thursday, 11:30 p.m. GMT)

Forecast: 2.8% Unemployed

Japan's labour market continues to tighten, although wage gains remain low. Japan's unemployment rate rose to 2.8% seasonally adjusted in December, up from 2.7% in November. Total employed fell 70,000 after a 140,000 gain in November. The weakening of the labour market at the end of 2017 lowers our expectations of wage inflation in Japan, although some of it may reflect cyclical factors. That said, we still expect the labour market could tighten further in 2018, although prospects for wage growth remain uncertain. Overall, we expect the unemployment rate to be unchanged in January, while the total number of jobs added will likely rise after December's drop.

The Long View

Thin bond yield spreads did not prevent February-to-date's plunge by corporate issuance.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
February 22, 2018

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 102 bp is far under its 122-point mean of the two previous economic recoveries. This spread is more likely to be wider, as opposed to narrower, a year from now.

The recent high-yield bond spread of 350 bp is less than what is inferred from the spread's macroeconomic drivers, the high-yield EDF metric, and the VIX index. The adverse implications for liquidity of possibly significantly higher interest rates merit consideration.

DEFAULTS

After setting its current cycle high at January 2017's 5.8%, the U.S. high-yield default rate has since eased to the 3.2% of January 2018. Moody's Default and Ratings Analytics team expects the default rate will average 2.2% during the three months ended January 2019. A deeper slide to its 1.85% average of the 18-months-ended June 2015 is unlikely for now.

US CORPORATE BOND ISSUANCE

Yearlong 2017's US$-denominated bond issuance rose by 6.8% annually for IG, to $1.508 trillion and soared by 33.0% to $453 billion for high yield. Across broad rating categories, 2017's newly rated bank loan programs from high-yield issuers sank by 26.2% to $72 billion for Baa, advanced by 50.6% to $319 billion for Ba, soared by 56.0% to $293 billion for programs graded single B, and increased by 28.1% to $25.5 billion for new loans rated Caa.

Fourth-quarter 2016's worldwide offerings of corporate bonds showed annual percent changes of -10.2% for IG and +24.9% for high-yield, wherein US$-denominated offerings fell by 8.5% for IG and advanced by 24.9% for high yield.

First-quarter 2017's worldwide offerings of corporate bonds showed annual percent increases of 7.7% for IG and 110.6% for high-yield, wherein US$-denominated offerings advanced by 17.1% for IG and by 98.3% for high yield.

Second-quarter 2017's worldwide offerings of corporate bonds showed an annual percent decline of 6.3% for IG and an increase of 8.3% for high-yield, wherein US$-denominated offerings fell by 6.4% for IG and grew by 5.8% for high yield.

Third-quarter 2017's worldwide offerings of corporate bonds showed an annual percent decline of 1.6% for IG and an increase of 6.6% for high-yield, wherein US$-denominated offerings dipped by 0.7% for IG and grew by 4.3% for high yield.

Fourth-quarter 2017 revealed year-over-year advances for worldwide offerings of corporate bonds of 17.6% for IG and 77.5% for high-yield, wherein US$-denominated offerings posted increases of 21.0% for IG and 56.7% for high yield.

For yearlong 2016, worldwide corporate bond offerings rose by 2.3% annually for IG (to $2.402 trillion) and sank by 7.8% for high yield (to $426 billion). For yearlong 2017 have worldwide corporate bond offerings increasing by 4.0% annually (to $2.499 trillion) for IG and advanced by 41.2% for high yield (to $602 billion). The worldwide corporate bond offerings of 2018 are expected to show an annual rise of 0.7% for IG and a 0.2% uptick for high yield.

The financing of acquisitions and shareholder compensation will stand out among 2016's uses of funds obtained via bond issues and newly-rated bank loan programs. Companies will resort to acquisitions and divestitures in order to better cope with the US's subpar recovery. To the degree companies fear significantly higher bond yields, pre-fundings will rise.

US ECONOMIC OUTLOOK

The consensus expects that the mid-point for the federal funds rate should finish 2018 at 2.125%. In view of the considerable underutilization of the world's productive resources, low inflation should help to rein in Treasury bond yields. As long as the global economy operates below trend, the 10-year Treasury yield may not remain above 2.8% for long. A fundamentally excessive climb by Treasury bond yields and a pronounced slowing by expenditures in dynamic emerging market countries are among the biggest threats to the adequacy of economic growth and credit spreads going forward.

EUROPE

By Reka Sulyok of Moody's Analytics
February 15, 2018

U.K.

At first glance, the unexpected rise in the U.K. unemployment rate to 4.4% in the December quarter, from 4.3% in the previous stanza, undermines the case for a Bank of England rate hike in May, as it points to a loss of steam in the labour market. But we warn against reading too much into the increase. The jobless rate went up not because employment fell, but because many people entered the workforce over the quarter. Accordingly, the number of employed people rose sharply, up by 0.3% q/q, above the 0.2% average increase for the past year.

With the inactivity rate as low as 21.3%—well below the 23% average for the past decade—it is unlikely that further surges in the labour force will push the unemployment rate up again over the next few months. On the contrary, with vacancies rising sharply in January, to their highest on record, demand for labour is likely to remain strong, and this could push down the unemployment rate as soon as next month.

That said, we don't expect that the past-year strength in the labour market will persist for much longer, as little scope for improvement remains. Spare capacity is narrow and the annual net inflow of workers from the EU is already declining, so we assume that job growth will slow considerably this year.

Wages should nonetheless pick up. Even if the headline pay growth measure remained only steady in the last quarter of the year, data for December alone were more optimistic—wages including bonuses rose by 2.8% y/y—showing that wages are accelerating, even if slightly.

We expect this trend to continue throughout this year, in line with survey data. Markit's Report on Jobs and the Bank of England's Agents found that pay settlements for new hires have risen sharply at the start of 2018, while the scarcity of skilled labour will only aggravate this trend in coming months.

Wages won't soar, though. Given the uncertainty surrounding Brexit and the low levels of confidence, job-to-job flows are likely to remain depressed, easing the pressure on companies to raise salaries to prevent their staff from looking elsewhere. To that we add that the 1% pay cap on public sector wages was renewed this year, and this will further weigh on pay improvements given that public sector workers account for almost 20% of the workforce.

Manufacturing to lose steam

The Confederation of British Industry's total orders balance disappointed and fell to only 10 in February, from 14 in January, corroborating our view that the best days of the U.K.'s industrial revival may already be over. Although the pound fell sharply since the Brexit vote and raised the competitiveness of British companies, the boost from the lower currency is clearly starting to fade. Accordingly, the export orders balance was the main drag on the headline confidence figure, falling for a second consecutive month to only 10, from 19 in January, and that's despite the continuing strong momentum in the euro zone.

That the pound strengthened against the dollar over the past few months is one of the culprits, but commodities also gained at the start of the year, forcing producers to raise their selling prices sharply. And though the CBI price balance fell slightly in the middle of the quarter, at 25 the price balance was still well above its 30-year average of 16. Past evidence shows how low value-added manufacturing suffers when oil prices rise, and this time should be no different.

There is no need to overreact, though. The truth is that U.K. manufacturing is still performing rather well, and the expected slowdown is unlikely to turn into a slump. Manufacturing has grown solidly, on average a little above 1% q/q in the second half of 2017, and we are expecting an additional 0.5% q/q increase in the first quarter of this year.

ASIA PACIFIC

By Faraz Syed of Moody's Analytics
February 22, 2018

Volatility

The sensational repricing of risk, as evidenced by the malaise in global equities throughout February, appears to have calmed in Asia. The main catalyst for the stock market correction was reassessment of global monetary policies, particularly a tighter than anticipated path for the U.S. federal funds rate.

This follows the passage of U.S. fiscal stimulus policies backed by the Trump administration, pointing to a near-term boost to growth and inflation. Less accommodative monetary easing, all else equal, generally results in higher bond yields. That's largely been the cause of the stock market rout, as more investors flock to higher-yielding bonds.

That said, volatility remains elevated. After record low volatility in 2017, a rise in volatility is not unexpected. The recent spike suggests that there could be further turbulence if the Bank of England, the European Central Bank, and the Bank of Japan become less accommodative. The eerie calm of 2017 seems unlikely to persist in 2018, as various major central banks are likely to reconfigure their monetary settings.

Turbulence over, for now

Asian equities followed their global counterparts with a broad-based decline across the major bourses in early February. This follows a strong rise in equity values throughout 2017 across Asia. Improved global trade and a continued easing bias across most of Asia supported the stock market over the past 12 months. But investors were unforgiving; the Nikkei225, the Shanghai Composite, and the Hang Seng dropped more than 10% peak to trough. Other Asian markets suffered a similar fate.

The correction in equity values across Asia follows the broad theme of tighter global and domestic monetary policies. For example, domestic reforms in countries such as India were also supportive of the equity narrative in 2017. However, with Indian inflation rising more than 5%, expectations of rate hikes have risen in India. Similarly, financial markets deemed that the Bank of Japan is unlikely to persist with its quantitative easing policies beyond 2018. Although we don't expect the Reserve Bank of India to hike in 2018, the Bank of Japan is likely to reduce its pace of asset purchases by the year's end even if inflation doesn't quite hit the 2% target.

After the sharp declines in the previous week, a majority of the equities across the Asia region stabilised this week. Although a sharp rebound is unlikely, we expect some of the correction to reverse itself in the coming weeks.

Despite a tighter U.S. monetary policy path, Asian currencies held their own against the greenback. With a weak U.S. dollar in 2017, most Asian currencies rose, and the strength has largely been maintained in early 2018.

Could volatility rise further?

Extremely low volatility from 2017 is unlikely to continue in 2018. February's volatility will likely settle, but expectations and fear of tighter monetary policy could cause similar corrections throughout the year. But interest rate expectations were significantly repriced in February. The overnight index swap rate is a proxy for the policy rate, and the OIS curve has shifted upwards. Compared with the previous month, the OIS curve is significantly higher in the U.S., the U.K., and the euro zone.

The Long View

However, tighter monetary policy expectations haven't been the case for the Reserve Bank of Australia. For example, Australia's OIS curve has shifted down on the back of lower inflation. This suggests that not every central bank will enter a tightening bias in 2018.

Moreover, it also confirms considerable uncertainty about the tightening cycle. Further repricing in Australia or other developed economies could occur if inflation begins to show life. Overall, this suggests that 2018 will be less straightforward than previous years, as various global central banks will likely lower liquidity. Reducing ultra-loose monetary policy globally is largely uncharted waters, so it won't be surprising if volatility remains slightly elevated throughout 2018.

Ratings Round-Up

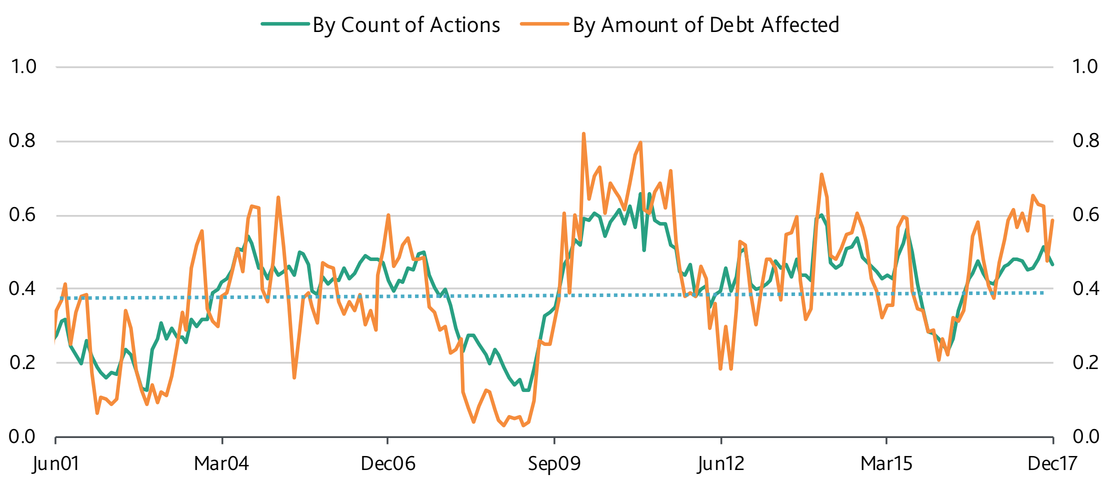
By Njundu Sanneh

M&A Features in Weekly Rating Revisions

The U.S. rating changes list was dominated by financial companies over the last week, including the real estate investment trusts, insurance, and mortgage finance sectors. In a list that is typically 80% speculative grade industrial companies, financial companies accounted for five of the nine U.S. rating changes. Financial companies accounted for five weekly rating changes. Although the retail sector, a staple in the weekly rating revisions list, was missing, the challenges of the sector had an impact on CBL & Associates Properties, Inc., a real estate investment trust with a significant portfolio in shopping malls. Another notable upgrade was Cactus Wellhead, LLC, an oil services company. Cactus' IPO and partial use of proceeds to pay down debts has helped prop up credit metrics and reduce operational risks in the near to medium term.

Merger and acquisition activities feature prominently in rating revision activity in Europe; two of the major companies on the list appeared mainly due to MA activity. The retail giant Koninklijke Ahold Delhaize N.V. was upgraded in light of synergies from the Ahold Delhaize merger that would reflect positively on earnings in the next several years. This is notwithstanding the intense competition in both the European and U.S. retail markets in which the companies operate. The utility company Fortum OYJ, on the other hand, was downgraded as its acquisition of 47.12% majority ownership in Uniper will materially weaken its market position without providing it with enough control of Uniper's strategy. The automotive supplier, software technology, and business services sectors round out the sectors in the European rating changes list.

FIGURE 1
Rating Changes - US Corporate & Financial Institutions: Favorable as % of Total Actions



* Trailing 3-month average
Source: Moody's

FIGURE 2

Rating Key

BCF	Bank Credit Facility Rating	MM	Money-Market
CFR	Corporate Family Rating	MTN	MTN Program Rating
CP	Commercial Paper Rating	Notes	Notes
FSR	Bank Financial Strength Rating	PDR	Probability of Default Rating
IFS	Insurance Financial Strength Rating	PS	Preferred Stock Rating
IR	Issuer Rating	SGLR	Speculative-Grade Liquidity Rating
JrSub	Junior Subordinated Rating	SLTD	Short- and Long-Term Deposit Rating
LGD	Loss Given Default Rating	SrSec	Senior Secured Rating
LTCF	Long-Term Corporate Family Rating	SrUnsec	Senior Unsecured Rating
LTD	Long-Term Deposit Rating	SrSub	Senior Subordinated
LTIR	Long-Term Issuer Rating	STD	Short-Term Deposit Rating

FIGURE 3

Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG
2/14/18	CACTUS WELLHEAD, LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG
2/15/18	CBL & ASSOCIATES PROPERTIES, INC.	Financial	SrUnsec/PF	1,375	D	Baa3	Ba1	IG
2/15/18	DITECH HOLDING CORPORATION	Financial	LTCFR		U	Caa3	Caa2	SG
2/15/18	OSHKOSH CORPORATION	Industrial	SrUnsec/LTCFR/PDR	500	U	Ba3	Ba2	SG
2/15/18	WINK HOLDCO, INC.	Financial	SrSec/BCF/LTCFR/IFSR		D	B1	B2	SG
2/16/18	ARDENT LEGACY ACQUISITIONS, INC.	Industrial	SrSec/BCF/LGD		U	B1	Ba3	SG
2/16/18	BOSTON PROPERTIES, INC.	Financial	SrUnsec/Sub/PS	7,500	U	Baa2	Baa1	IG
2/16/18	HIGH RIDGE BRANDS CO.	Industrial	LTCFR/PDR		D	B2	B3	SG
2/16/18	MOLINA HEALTHCARE, INC.	Financial	SrUnsec/IFSR	1,030	D	B2	B3	SG

Source: Moody's

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

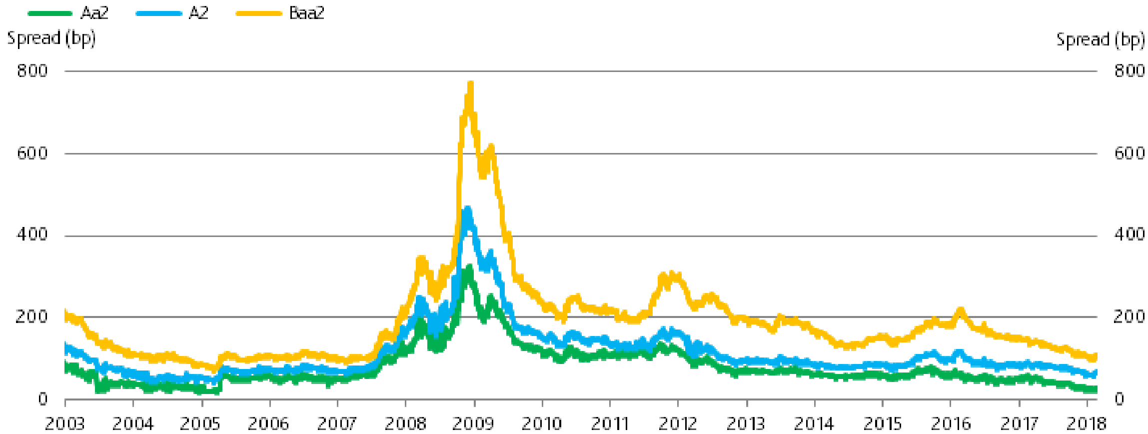
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
2/15/18	FORTUM OYJ	Utility	SrUnsec/LTIR/MTN	2,801	D	Baa1	Baa2	IG	FINLAND
2/20/18	FAURECIA SA	Industrial	SrUnsec/LTCFR/PDR	1,743	U	Ba3	Ba1	SG	FRANCE
2/16/18	SS&C TECHNOLOGIES HOLDINGS, INC.	Industrial	LTCFR		D	Ba2	Ba3	SG	LUXEMBOURG
2/19/18	KONINKLIJKE AHOLD DELHAIZE N.V.	Industrial	SrUnsec/LTIR	3,844	U	Baa2	Baa1	IG	NETHERLANDS
2/15/18	EVERGOOD 4 APS - Nassa Topco AS	Industrial	SrUnsec	498	D	Ba2	B1	SG	NORWAY
2/15/18	ORIENT EXPRESS BANK	Financial	SrUnsec/LTD	89	U	Caa1	B3	SG	RUSSIA

Source: Moody's

Market Data

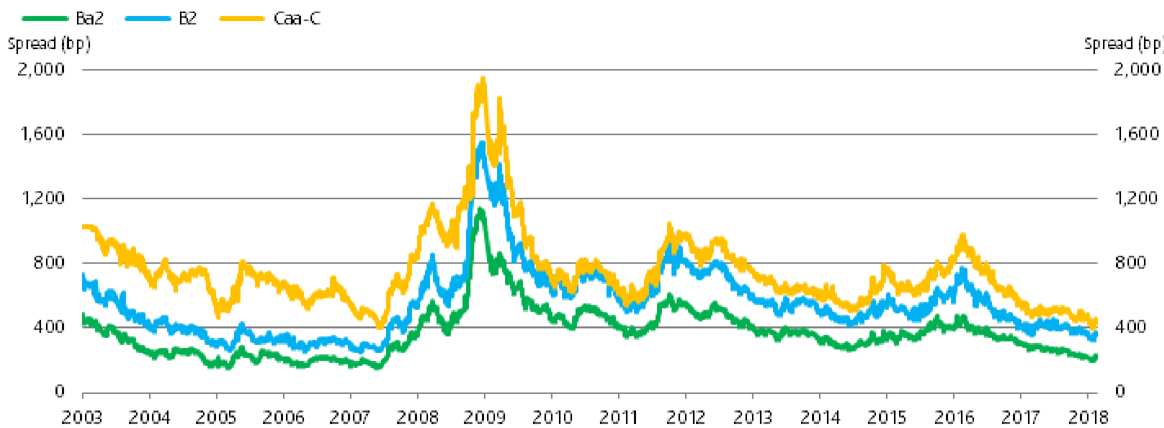
Spreads

Figure 1: 5-Year Median Spreads-Global Data (High Grade)



Source: Moody's

Figure 2: 5-Year Median Spreads-Global Data (High Yield)



Source: Moody's

Market Data

CDS Movers

Figure 3. CDS Movers - US (February 14, 2018 – February 21, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 21	Feb. 14	Senior Ratings
Penney (J.C.) Corporation, Inc.	Caa2	Ca	B3
Darden Restaurants, Inc.	Aa3	A2	Baa2
MBIA Insurance Corporation	Caa2	Ca	Caa2
MBIA Inc.	Caa2	Ca	Ba3
Comcast Corporation	A1	A2	A3
Walt Disney Company (The)	Aa2	Aa3	A2
Aetna Inc.	A1	A2	Baa2
Amgen Inc.	A1	A2	Baa1
Johnson & Johnson	Aaa	Aa1	Aaa
International Business Machines Corporation	Aa2	Aa3	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 21	Feb. 14	Senior Ratings
Parker Drilling Company	Ca	Caa2	Caa2
JPMorgan Chase & Co.	Baa1	A3	A3
JPMorgan Chase Bank, N.A.	A2	A1	Aa3
Ford Motor Credit Company LLC	Ba2	Ba1	Baa2
Citibank, N.A.	Baa3	Baa2	A1
Amazon.com, Inc.	Baa1	A3	Baa1
Abbott Laboratories	A3	A2	Baa2
3M Company	Aa2	Aa1	A1
Anthem, Inc.	A3	A2	Baa2
Southern Company (The)	Baa3	Baa2	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 21	Feb. 14	Spread Diff
Nine West Holdings, Inc.	C	36,796	31,544	5,252
Sears Holdings Corp.	C	4,009	3,089	920
Sears Roebuck Acceptance Corp.	C	4,016	3,473	543
McClatchy Company (The)	Caa2	970	914	56
Parker Drilling Company	Caa2	924	880	44
International Game Technology	Ba2	146	125	21
Meritage Homes Corporation	Ba2	197	188	9
Talen Energy Supply, LLC	B1	766	758	7
Dish DBS Corporation	Ba3	395	390	5
NextEra Energy Capital Holdings, Inc.	Baa1	65	60	5

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 21	Feb. 14	Spread Diff
MBIA Inc.	Ba3	794	994	-200
Rite Aid Corporation	B3	559	734	-175
Avon Products, Inc.	B3	622	788	-166
Windstream Services, LLC	B3	2,429	2,593	-165
MBIA Insurance Corporation	Caa2	831	993	-162
Neiman Marcus Group LTD LLC	Caa3	1,240	1,385	-146
Frontier Communications Corporation	B3	1,552	1,684	-132
K. Hovnanian Enterprises, Inc.	Caa3	1,542	1,650	-108
Office Depot, Inc.	B2	551	652	-101
Penney (J.C.) Corporation, Inc.	B3	836	929	-93

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (February 14, 2018 – February 21, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 21	Feb. 14	Senior Ratings
Bouygues S.A.	Aa2	A1	Baa1
Lloyds Bank Plc	A1	A2	Aa3
Orange	A2	A3	Baa1
Statoil ASA	Aaa	Aa1	Aa3
Volkswagen Aktiengesellschaft	Baa1	Baa2	A3
Sanofi	Aa1	Aa2	A1
Bayer AG	Aa3	A1	A3
CNH Industrial N.V.	Baa2	Baa3	Ba2
Telia Company AB	A2	A3	Baa1
EnBW Energie Baden-Wuerttemberg AG	Aa3	A1	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 21	Feb. 14	Senior Ratings
Erste Group Bank AG	A2	Aa3	A3
Eurobank Ergasias S.A.	Ca	Caa2	Caa3
Piraeus Bank S.A.	Ca	Caa2	Caa3
Abbey National Treasury Services plc	A3	A2	Aa3
Barclays Plc	Ba1	Baa3	Baa2
Finland, Government of	Baa2	Baa1	Aa1
ING Groep N.V.	A3	A2	Baa1
Landesbank Baden-Wuerttemberg	Aa3	Aa2	A1
Bankinter, S.A.	Baa2	Baa1	Baa2
Raiffeisen Bank International AG	Baa2	Baa1	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 21	Feb. 14	Spread Diff
Astaldi S.p.A.	B3	2,714	2,206	509
Raiffeisen Bank International AG	A3	56	47	9
Erste Group Bank AG	A3	40	32	7
SES S.A.	Baa2	76	69	6
UPC Holding B.V.	B2	150	145	5
Novafives S.A.S.	B3	149	144	5
Wm Morrison Supermarkets plc	Baa2	85	81	4
Italy, Government of	Baa2	99	96	3
Santander UK plc	Aa3	40	38	3
Abbey National Treasury Services plc	Aa3	42	39	3

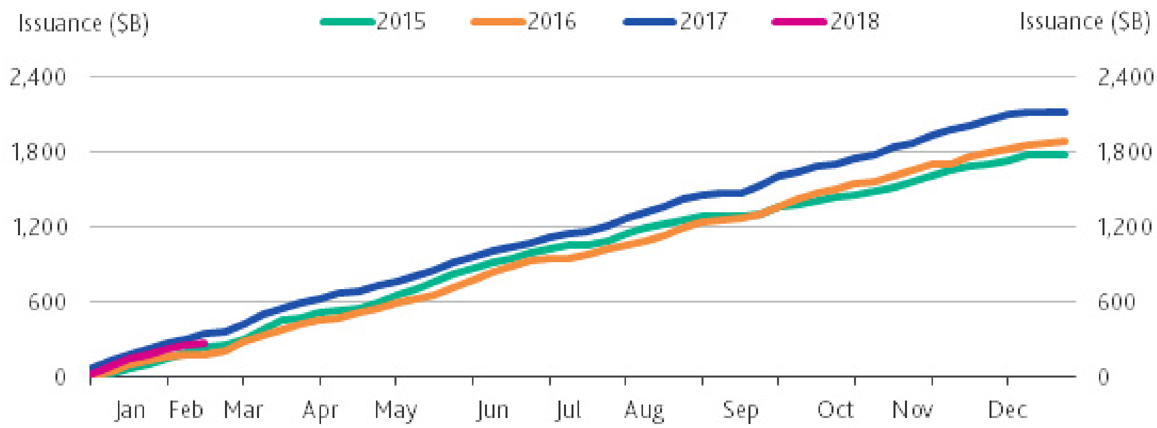
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 21	Feb. 14	Spread Diff
PizzaExpress Financing 1 plc	Caa1	898	943	-45
Ensco plc	B3	423	444	-22
Matalan Finance plc	Caa1	610	632	-22
CMA CGM S.A.	B3	411	431	-20
Ardagh Packaging Finance plc	B3	170	188	-18
Greece, Government of	B3	319	336	-17
Sunrise Communications Holdings S.A.	B1	91	107	-17
Vue International Bidco p.l.c.	B3	258	273	-15
Vedanta Resources plc	B2	421	434	-13
Ineos Group Holdings S.A.	B1	176	189	-13

Source: Moody's, CMA

Market Data

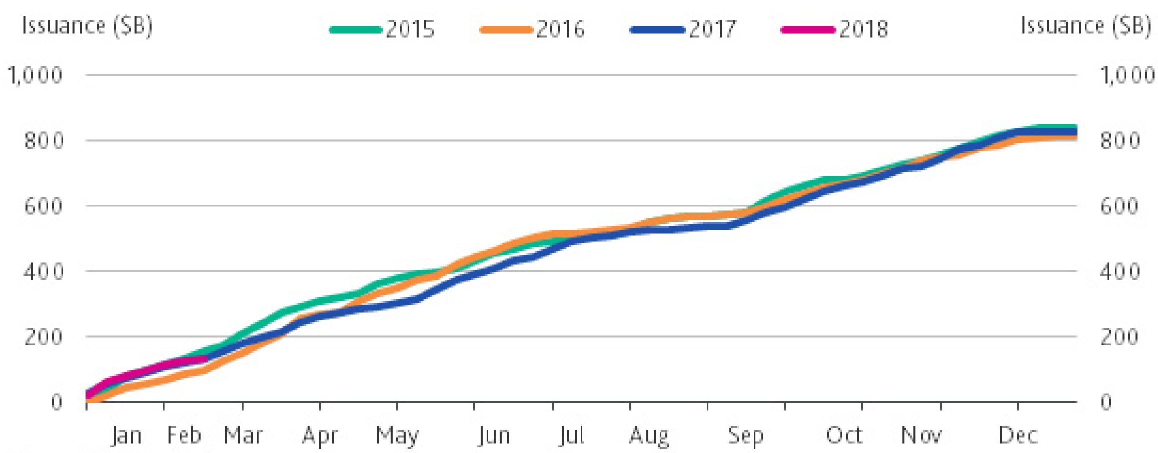
Issuance

Figure 5. Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



Source: Moody's / Dealogic

Figure 6. Market Cumulative Issuance - Corporate & Financial Institutions: Euro Denominated



Source: Moody's / Dealogic

Market Data

Figure 7. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	9.786	0.556	10.969
Year-to-Date	193.838	56.271	264.720

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	4.830	0.000	5.370
Year-to-Date	116.962	10.460	133.445

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

Moody's Capital Markets Research *recent publications*

Declining Default Rate Offsets Drag of Higher Interest Rates (Capital Markets Research)

Corporate Bonds Beg to Differ with Their Equity Brethren (Capital Markets Research)

Topics CreditEdge - Bank Default Risk Improves in 2017

Higher Yields and Lower Equities Might Yet Swell Credit Risk (Capital Markets Research)

High-Yield Bond Issuance Thrives Despite Tax Law Changes (Capital Markets Research)

Surging Equities and Thinner Spreads Favor Higher Treasury Yields (Capital Markets Research)

Sovereign & Supranational: Greece's Sovereign EDF Implies Upbeat Next Act in Greek Economic Drama

Sovereign & Supranational: South Korea's Sovereign Credit Risk: Calmer Against a Friendlier Backdrop

Stocks and Spreads May Transcend Higher Treasury Yields (Capital Markets Research)

Sovereign & Supranational: Brazil's Sovereign Credit Risk at Year's Best

Profits Growth and Benign Default Outlook May Offset Higher Interest Rates (Capital Markets Research)

Benign Credit Outlook Comes With Blemishes (Capital Markets Research)

Sovereign & Supranational: EDFs for Greece and Spain Lowest in Years

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